

Message Text

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SUBJECT: PROPOSED NEW LABOR CONTRACT FOR ELECTRONICS
INDUSTRY IN PORTUGAL

REF: STATE 031622

1. SUMMARY: THE ARBITRATION OF A NEW COLLECTIVE
LABOR CONTRACT FOR THE ELECTRONICS INDUSTRY WAS
RECENTLY ANNOUNCED WHICH PROVIDES FOR ENORMOUS
PERCENTAGE INCREASES FOR BASE WAGES PAID TO FEMALE
ASSEMBLY LINE EMPLOYEES. SINCE ABOUT 30 PERCENT
OF THE 30,000 EMPLOYEES AFFECTED BY THIS CONTRACT
WORK FOR U.S. OWNED FIRMS, THE EMBASSY HAS
COLLABORATED CLOSELY WITH THE U.S. FIRMS INVOLVED.
THESE FIRMS CLAIM THAT THE NEW CONTRACT, IF SIGNED
BY THE GOP, WILL SERIOUSLY JEOPARDIZE THEIR
PROFITABILITY DUE TO GREATLY INCREASED LABOR
COSTS. THE GOP CURRENTLY HAS THE CONTRACT UNDER
CONSIDERATION AND MAY DELAY ITS FINAL DECISION FOR
SEVERAL MONTHS. END SUMMARY.

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2. MANAGERS OF SEVEN U.S. OWNED ELECTRONICS MATERIAL MANUFACTURING FIRMS -- APPLIED MAGNETICS, CONTROL DATA, ADVANCED ROSS, ITT SEMICONDUCTORS, SIGNETICS, GNERAL INSTRUMENT, AND TEXAS INSTRUMENTS -- CALLED ON THE AMBASSADOR ON FEBRUARY 14 TO CONSULT ON A PROPOSED NEW COLLECTIVE LABOR AGREEMENT FOR THEIR INDUSTRY. THE LABOR CONTRACT IN QUESTION HAD BEEN UNDER NEGOTIATION BETWEEN THE ELECTRONICS MANUFACTURERS' ASSOCIATION (GREMIO) AND THE EMPLOYEES' UNIONS (SINDICATOS) WITH NO AGREEMENT ON BASE WAGES AND CERTAIN FRINGE BENEFITS. CONSEQUENTLY, THE GOP ORDERED THE NEGOTIATIONS INTO ARBITRATION IN OCTOBER 1973 WITH THE ARBITRATION COMMITTEE TO CONSIST OF THREE REPRESENTATIVES, ONE EACH APPOINTED BY THE GREMIO, THE SINDICATO AND THE GOP'S MINISTRY OF LABOR. THE ARBITRATION COMMITTEE REPORTED ITS RESULTS ON FEBRUARY 11 BASED ON A SPLIT VOTE WITH THE GOP ARBITRATOR SIDING WITH THE SINDICATO REPRESENTATIVE IN AWARDING TO FEMALE ASSEMBLY LINE WORKERS BASE WAGE INCREASES RANGING FROM 150 TO 300 PERCENT DEPENDING UPON THE PARTICULAR EMPLOYER'S SCALE.

3. THE U.S. MANUFACTURERS REQUESTED THE AMBASSADOR'S ASSISTANCE IN ACHIEVING TWO POINTS: FIRST, TO REQUEST A DELAY IN FINAL APPROVAL OF THE CONTRACT BY THE MINISTER OF LABOR, PENDING A REVIEW OF THE CONTRACT'S IMPACT ON THE INDUSTRY; AND SECONDLY, TO PROVIDE THE MANUFACTURERS' GROUP WITH AN OPPORTUNITY TO PRESENT ITS CASE TO THE GOP. THE U.S. FIRMS' MANAGERS STATED THAT AS A GROUP THEY EXPECTED TO EXPORT IN 1974 APPROXIMATELY \$90 MILLION WORTH OF PRODUCTS FROM PORTUGAL, (I.E., ABOUT \$60 MILLION IN NET EXPORT VALUE) THEY EMPLOY OVER 9,000 PEOPLE AND THEY HAVE INVESTED MORE THAN \$27 MILLION. THE MANAGERS FURTHER CONTEND THAT IF THIS CONTRACT IS ENACTED IN ITS PRESENT FORM, THE NEW MINIMUM WAGES AND FRINGE BENEFITS WILL CAUSE AN IMMEDIATE CURTAILMENT OF ALL THEIR EXPANSION LIMITED OFFICIAL USE

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PLANS AND MAY FORCE SEVERAL OR ALL OF THE FIRMS TO CLOSE DOWN. THIS WOULD BE A SERIOUS DISLOCATION FOR THE FIRMS IN QUESTION AS WELL AS TO PORTUGAL'S EXPORT PROGRAM AND TO THE GOP'S EFFORTS TO PROMOTE EMPLOYMENT FOR WOMEN IN RURAL AREAS WHERE SEVERAL OF THE FIRMS ARE LOCATED.

4. FOLLOWING THE MEETING WITH THE U.S. INDUSTRY

GROUP, THE AMBASSADOR IMMEDIATELY DISCUSSED THE GROUP'S CONCERNS WITH THE SECRETARY GENERAL OF THE FOREIGN MINISTRY (I.E., THE FONMIN'S SECOND HIGHEST OFFICIAL), WHO IN TURN PROMISED TO TAKE UP THE MATTER WITH THE FOREIGN MINISTER. ON FEBRUARY 15, THE AMBASSADOR WAS INFORMED BY THE FONMIN SECRETARY GENERAL THAT THE MINISTER OF LABOR HAD AGREED TO DELAY ANY DECISION RE THIS LABOR CONTRACT PENDING RECEIPT OF A WRITTEN PRESENTATION BY THE U.S. OWNED FIRMS.

5. UPON LEARNING OF THIS COMMITMENT, THE U.S. MANUFACTURING MANAGERS EXPRESSED THEIR APPRECIATION TO THE AMBASSADOR AND SET TO WORK PREPARING THEIR LETTER TO THE MINISTER OF LABOR. IN THEIR PRESENTATION, THE SEVEN U.S. FIRMS REVIEWED THE IMPACT OF THE PROPOSED CONTRACT ON THEIR OPERATIONS, BUT STOPPED SHORT OF THREATENING AN IMMEDIATE PULLOUT OF PORTUGAL. SIMULTANEOUSLY, THE GREMIO PRESENTED TO THE GOP A MUCH MORE COMPLETE INTERPRETATION OF THE IMPACT OF THE CONTRACT ON THE ELECTRONICS INDUSTRY AND THE PORTUGUESE ECONOMY.

6. COMMENT: IN RESPONSE TO STATE 031622, WE HAVE NO REASON TO BELIEVE THAT U.S. OWNERSHIP OF SEVERAL ELECTRONICS FACTORIES INCLUDING TEXAS INSTRUMENTS IN OPORTO IS FACTOR IN LARGE WAGE INCREASE PROVIDED BY THIS PROPOSED CONTRACT. THE FACT THAT ELECTRONICS INDUSTRY IN PORTUGAL IS DOMINATED BY U.S., GERMAN, DUTCH AND BRITISH FIRMS, WITH MINIMAL PORTUGUESE PARTICIPATION, MAKES THIS SECTOR SOMEWHAT MORE VULNERABLE TO PRESSURES BY BOTH GOVERNMENT AND LABOR THAN SECTORS WHICH ARE PRIMARILY OWNED BY PORTUGUESE FIRMS. FURTHERMORE, THE ELECTRONICS INDUSTRY LIMITED OFFICIAL USE

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IN PORTUGAL EMPLOYS MAINLY UNSKILLED OR SEMI-SKILLED FEMALES WHOSE LOW WAGE RATES (AS LOW AS \$60 TO \$70 PER MONTH PLUS FRINGE BENEFITS) ARE NATURALLY SUBJECT TO HIGH PERCENTAGE INCREASES PERIODICALLY. SINCE THIS CONTRACT ALREADY HAS BEEN ARBITRATED UNDER AUSPICES OF GOP, IT SEEMS SOMEWHAT UNLIKELY THAT THE TERMS OF THE AGREEMENT WILL BE RADICALLY CHANGED IN FAVOR OF THE MANUFACTURERS. WHILE THE EMBASSY WAS INSTRUMENTAL IN STIMULATING HIGH LEVEL CONSULTATIONS BETWEEN THE MINISTRY OF LABOR AND MINISTRY ECONOMY RE THE IMPACT ON ELECTRONICS INDUSTRY, WE DO NOT SEE ANY FURTHER ACTIVE ROLE FOR THE EMBASSY AT THIS MOMENT AND WE INTEND TO LET THE U.S. FIRMS PURSUE THEIR RESPECTIVE COMPANY POLICIES. WE WILL CONTINUE TO STAY IN

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